SOVIET PIPELINE SANCTIONS: THE EUROPEAN PERSPECTIVE

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SOVIET PIPELINE SANCTIONS: THE EUROPEAN PERSPECTIVE

WEDNESDAY, SEPTEMBER 22, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2118, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representative Reuss and Senator Jepsen.

Also present: James K. Galbraith, executive director; Louis C. Krauthoff II, assistant director; Betty Maddox, assistant director for administration; and Kent H. Hughes, Marian Malashevich, and Sandy Masur, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning.

The Joint Economic Committee will be in order for a hearing on "Soviet Pipeline Sanctions: The European Perspective."

We are very fortunate to have with us three of the most distinguished editors of Europe: Messrs. Thierry de Montbrial, director of the French Institute for International Relations; Andre Fontaine, editor of Le Monde, Paris; and Andrew Knight, editor of the Economist, sometimes known as the London Economist.

Today, the Joint Economic Committee hears from three distinguished Europeans on a subject of vital mutual interest to the United States and Europe: the trade sanctions recently imposed by the Reagan administration against the Soviet Union's natural gas pipeline to the West.

This is a puzzling issue. The administration has taken a strong position against U.S. participation of any kind in the pipeline project. It has advanced its views against the united opposition of our European and Japanese allies. It has skirted, and some would say crossed, the boundaries of international law in applying our sanctions to firms operating in foreign jurisdictions. It has pushed its point to the extent of risking a deep rift in the unity of the Western alliance.

Why has it done this? The administration has failed to state a single clear and compelling rationale for the sanctions. Equally, it has failed to make such a rationale consistent with other aspects of its East-West trade policy, most conspicuously with respect to sales of grain.

More precisely, the administration has allowed two totally distinct and mutually exclusive rationales for the pipeline sanctions to appear,

at various times and under varying circumstances, to be the principal motivation. The first is that the sanctions are in response to Soviet complicity with repression in Poland. The second is that the United States is undertaking a campaign of economic warfare against the Soviets designed to deny them foreign exchange and slow their economic development, on the theory that this will weaken rather than encourage Soviet military adventurism.

If the administration truly wished for the pipeline sanctions to ease the burden of the Polish people, they should set clear and feasible criteria under which the sanctions would be lifted. This they have not done.

The second theory—that of hard currency warfare—is even more doubtful. There is simply no evidence that we possess sufficient economic leverage over the Soviets to bend them to our will on military and political matters through the device of trade sanctions. Conversely, the enlarged trade which would ensue upon completion of the pipeline is as likely to produce Soviet dependence on European and American manufactured exports as European dependence on Soviet gas, and could therefore expand our future economic leverage over the Soviets. It is simply unproved that diminished trade hurts the Soviets more than us, or that expanded trade is more beneficial to them than to us.

The Soviet Union has a large, autarchic economy. It is far from clear that U.S. sanctions can long delay completion of the pipeline, whatever their intent and whatever the effectiveness with which they are enforced. What is clear is that these sanctions have seriously undermined the trust and will to cooperate on which the alliance relies. Again, one must ask why our administration has seen fit to take this particular stand on this particular issue.

To be fair, most sensible members of the administration, including the current Secretary of State, have spoken forcefully in the past against promiscuous application of trade sanctions to achieve marginal political effects. One can hope that these officials are working today to extricate the administration from the troubles it has created for itself, and that history ultimately will record their quiet public service.

Our congressional role is a different one. It is up to us to examine before the bar of public opinion the multiple aspects of this problem and to seek for solutions that can save face all around. One such possible solution: our European friends have been subsidizing the European pipelines with loans of around 7 percent interest, way below any conceivable market rate. Their explanation is that they intend to sock it to the Soviets and redress the imbalance by overcharging them on the equipment they are going to buy from Europe and underpaying the Soviets for the gas they are going to buy.

Wouldn't it be rather a good trade for the Europeans to withdraw this malarky and not subsidize the Soviet pipeline and for Mr. Reagan, in return, promptly to dissolve the sanctions?

In this spirit, we now turn to our distinguished witnesses from over the sea. We look to you gentlemen for your evaluation of the troubles we face together, and for your constructive suggestions on what is to be done.

My colleague, Senator Jepsen, also has an interest in the pipeline question, and I welcome his presence here.

OPENING STATEMENT OF SENATOR JEPSEN, VICE CHAIRMAN

Senator JEPSEN. I wish to thank the chairman for convening this hearing on the European view of the Soviet pipeline sanctions imposed by the United States. While I abhor the Soviets' aggression, the export bans imposed in retaliation by this and previous administrations have troubled me greatly. The embargoes have injured U.S. firms and workers, soured relations within the alliance, and had little discernible impact on the actions of the Soviets.

We desperately need to find a way out of our current dilemma, and I hope our witnesses today will provide us with some constructive suggestions on the means of achieving this objective.

The history of our current crisis is known to all of us. In December 1981, in response to Soviet-backed repression in Poland, President Reagan imposed a series of sanctions on the U.S.S.R. including suspension of licensing of oil and gas equipment and other high-technology items. U.S. firms, reeling from the resulting impact of lost contracts, were dealt another blow in June when the President extended the embargo to cover sales by oversea subsidiaries and licensees. As in the earlier Carter grain embargo, U.S. producers saw their foreign market share stolen away by oversea suppliers unwilling to go along with U.S. sanctions. And today, 3 months later, we still find ourselves mired in controversy with our allies. We are still arguing over whether we have the authority to impose U.S. law and the effects of U.S. policy outside of our own borders.

Firms and workers from coast to coast have been adversely affected by export embargoes. The earlier grain ban, imposed in retaliation against the Soviet invasion of Afghanistan, deprived U.S. farmers of a lucrative export market. The current ban, while imposed for equally laudable reasons, has also injured U.S. producers and called into question America's reliability as a long-term supplier.

In response to a Commerce Department request for comments under the provisions of the Export Administration Act, the executive branch has received reams and reams of material from firms cataloging the injuries. A Pennsylvania firm writes it could lose an order for $800,000 in spare parts under technology originally transferred to Europe in the early 1960's. Another $2 million in new business—none of it for use in the pipeline—could be lost to other suppliers.

A large multinational has lost contracts worth $175 million, accounting for 1,000 man-years of employment in parent company U.S. factories and another 1,000 in factories of U.S.-based contractors. Dresser industries has laid off 7,500 people in the United States and Canada and, since early 1982, has turned away $100 million in orders unrelated to the pipeline. Another Texas firm has clients with approximately $33 million in customized manufactured equipment under contract. That equipment may now be undeliverable. In my own State of Iowa, Deere & Co. and Caterpillar have suffered as well.

I would like to insert into the record a statement about the Caterpillar Tractor Co. on the effects of the sanctions on trade with the Soviet Union.

[The statement referred to follows:]

Effect of USSR Trade Sanctions on Caterpillar Tractor Co.

On December 29, 1981, the President imposed selected economic sanctions against the Soviet Union because of its role in the imposition of martial law and suppression of human rights in Poland. Those sanctions included the expansion of export controls on the sale of U.S.-origin oil and gas equipment and technology and the suspension of all licensing of controlled exports to the Soviet Union.

The following comments explore the costs of the President's decision to unilaterally expand oil and gas equipment controls and, specifically, its impact on Caterpillar.

Recent Caterpillar experience with export controls on pipelayers is a graphic illustration of the problems associated with sanctions. One need only examine what has happened to Caterpillar sales and those of Komatsu (our major Japanese rival) to the Soviet Union since mid-1978. That is when the Carter Administration placed export controls on oil and natural gas equipment -- including pipelayers -- in response to Soviet violations of our human rights standards.

The numbers on this chart represent Soviet purchases of large track-type tractors and pipelayers. (While it is impossible to have precise data on sales by our competitors, we have a high degree of confidence in these figures.)

Time Frame	Caterpillar	Komatsu
1970 - Mid-1978	1,943 units	341 units
Mid-1978 - 1981	336 units	1,998 units

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The striking point about this table is that prior to mid-year 1978, Caterpillar dominated the Soviet market for large machines, supplying 85 percent of the demand. Since the imposition of the Carter sanctions, the reversal has been dramatic -- Komatsu has held an 85 percent share, of a rapidly growing market.

It is always difficult to know what motivation underlies specific Soviet purchasing decisions. However, had we maintained the share of the business we held before the Carter imposed sanctions, as much as $400 million of additional U.S. exports and 12,000 man-years of employment at Caterpillar and its suppliers could have been generated. Follow-up sales of replacement parts would probably have added another 25 percent (or $100 million in exports and 3,000 jobs). In view of the fact that these export controls do not appear to have seriously disadvantaged the USSR, this seems an expensive price for the United States to pay.

The Carter Administration's sanctions affected Caterpillar seriously. We had nevertheless worked hard over the past year or so to reestablish our once leading position in the Soviet market. In fact, we were on the verge of reestablishing our once strong "reliable supplier" relationship. In July of last year, after making application five months earlier in February, we were granted a license to export 100 pipe-layers to the USSR. In early December, three months after making application, we were given Presidential approval to export 200 more machines. That latter decision was overturned in late December, when the President imposed sanctions against the Soviets. The present situation effectively undercuts the progress we had made

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We are able to identify a number of direct, though not in all cases quantifiable, effects on Caterpillar of the sanctions that have been applied against us. First is the loss of the sale of 200 Model 594 pipelayers, with a license value of about $90 million. In addition, discussions which were underway with the Soviets for sales of additional large quantities of pipelayers have had to be abandoned indefinitely.

Second, the sanctions will prevent, or at least inhibit, other sales of equipment. Contractors often desire commonality of machinery on a project. The use of Caterpillar pipelayers would normally dictate the use of our track-type tractors and other related equipment. As an example, last year the Soviets decided to buy 900 pipelayers from Komatsu. At the same time, they also bought 600 Komatsu track-type tractors. The sanctions on pipelayers have thus had the unintended effect of hurting our sales of non-controlled tractors as well.

Third, Caterpillar's international price competitiveness has been diminished as a result of having to write off a large share of the Soviet market. A recent Soviet commitment to buy 1,500 large Komatsu machines (valued at approximately $350 million) represents a very large order for that size equipment. As the two companies develop worldwide pricing structures for their larger machines, Komatsu's ability to spread their fixed costs over such a quantity of business will improve their already strong position vis-a-vis Caterpillar.

And fourth, Caterpillar's reputation and the reputation of other U.S. companies as reliable suppliers is in serious jeopardy not just in the Soviet Union but throughout the world. This restricts our ability to compete in the international marketplace. It forces potential customers to seriously question whether we'll be able to maintain a long-term relationship. In turn, they are led to other more reliable suppliers.

Impact of this past and potential business loss would be painful under any circumstances. But it is exaggerated by the economic downturn faced by Caterpillar and the communities in which we're located. We have over 17,000 employees on indefinite layoff, and thousands more have been affected by periodic shutdowns. In addition, there is a ripple effect that hits our suppliers at an estimated rate of two jobs for each Caterpillar job.

Caterpillar is not in a position to judge the overall effectiveness of the sanctions. We can, however, document that the ban on the sale of our equipment (primarily pipelayers) has not met the objectives -- and will not if continued. Depriving the Soviets of Caterpillar machines has not imposed significant economic costs or delayed construction of the gas pipeline to Western Europe.

Instead, we now have a situation where the Soviet market is closed to us; the Japanese have the business; the unemployment lines in Peoria have grown longer; and it appears that the Soviet gas pipeline to West Europe will be built anyway.

Last year President Reagan rescinded the grain embargo against the USSR, noting that it is unfair to allow one sector of our economy to bear the economic consequences of a foreign policy decision. Yet it appears that one sector ... in fact, one company ... is in such a situation. The Commerce Department has reported that the sanctions applied against the USSR in December have resulted in suspension of some 224 export licenses valued at $130 million. This would seem to indicate that Caterpillar, its employees and its suppliers, with a $90 million license denied, absorbed over two-thirds of the impact of the original sanctions on U.S. commercial interests. The equity of this situation escapes us.

Senator JEPSEN. While these producers join me in strongly opposing the horrendous repression in Poland, they believe insufficient attention was paid to the lasting adverse impact the targeted sanctions would have on specific industrial sectors here at home. I fear they may be right.

To make matters worse, our allies have been only too happy to jump in and fill the void created by the U.S. export ban. Rather than joining the United States in countering a serious threat at their very own borders, the European nations have taken over our contracts for machinery and equipment related to Soviet steel mill construction, aluminum smelting, and the pipeline itself. Producers there now have not only the initial contracts but the follow-on orders for spare and replacement parts.

We are at a critical juncture. We can allow the tensions between our allies and ourselves to continue or even to escalate. We can dwell on what has happened and allow our differences to create a permanent rift. I am sure the Soviets would be only too happy to see this occur.

Or we can use the traditions of cooperation and consensus established in NATO, in the OECD, and in other multilateral organizations to develop a common approach toward the Soviet Union that will satisfy all members of the alliance.

It seems to me that Europe could go a long way toward bringing us closer to a solution. By agreeing to arrangements regarding subsidized export credits to the Eastern bloc, for example, European nations could show they are committed to compromise.

I hope our witnesses today will have other suggestions. The future of our workers and firms, perhaps the future of the alliance, depends on it.

Before we call our witness, I would like to place Senator Hawkins' opening statement in the record.

[The opening statement of Hon. Paula Hawkins follows:]

OPENING STATEMENT OF SENATOR HAWKINS

Mr. Chairman, thank you for this opportunity to discuss the Soviet natural gas pipeline and its impact on the Western alliance and the international trading system. I have recently returned from a trip to Europe during which I was able to discuss this issue with key figures in several European governments. I learned of their commitment to the pipeline and of their concerns should the project not move forward. However, I departed Europe more convinced of the need to halt the construction of the pipeline than when I first arrived.

The transatlantic debate on the Soviet pipeline often ignores the underlying issue—how will the nations of the West deal with the Soviet Union? During the years following the defeat of Nazi Germany the Western Allies acted in concert. Fear of the Soviet Army encamped in Eastern Europe provided the impetus for a common policy aimed at blocking Soviet military expansion into Western Europe. As time passed, however, our European allies grew less fearful of a direct Soviet assault, and began to focus on economic benefits that could be gleaned from closer economic ties with the Soviet bloc. This incentive and the dream of closer ties between East and West Germany led to the adoption of Chancellor Willy Brandt's "Ostpolitik." Later in the United States this policy of eased tension between East and West and of increased trade became characterized under the Nixon administration as "detente." European businesses took special advantage of increased access to new markets in the Soviet Union, although American agricultural interests were not far behind. During these years considerable vested interests were established.

However, we have long avoided determining the effectiveness of detente in bringing peace and stability to the world. We have also ignored evidence that detente has helped improve the standard of living in the Soviet Union. But, it

has done nothing to dissuade the Soviet Politburo of its destabilizing, aggresive policies. Detente assumed that if the nations of the West negotiated with, rather than confronted, and traded with, rather than contained the U.S.S.R. that Moscow would join the West in jointly establishing an era of peace and prosperity.

But what does the record show of detente and its effect on Soviet foreign policy? The record shows Soviet tanks crushing the flowers of the Prague spring. The record shows the active destabilizing involvement of Soviet proxies in Angola, Mozambique, Ethiopia, and other African nations. It shows increased real Soviet defense spending and declining real U.S. defense spending during the detente years. It shows the invasion of Afghanistan by tens of thousands of Soviet troops. It shows the repression of freedom of liberty in Poland at the direction of the Moscow leadership.

In my view, detente was a failure. This does not mean that I oppose negotiations or trade with the Soviets. They have their place. However, there must also be times at which we show the Soviets that Lenin was wrong, that the capitalists will not sell them the rope with which to hang themselves. I believe that the Soviet gas pipeline is one of those issues on which we must be firm. The pipeline affords a clear opportunity to show the Soviets that we cannot have business as usual so long as Soviet troops occupy Afghanistan, Poland is repressed, and Soviet adventurism continues unabated. This is an opportunity that should not be missed.

The pipeline is a bad idea, and I hope that, even at this late date, the Europeans will reconsider their fateful decision to proceed with it. In addition, the pipeline makes the Europeans dangerously dependent on the Soviets for a significant portion of their natural gas. Even more incredibly the Europeans are arranging it so that they will finance their own dependence because the Soviets can be expected to pay off their pipeline loans with earnings from the sale of gas to them. And if the Europeans believe that the pipeline will diversify their dependence on foreign sources of energy, I fear that they are fooling themselves. If supplies of oil were again cut off from the Middle East, I can think of fewer easier ways the Soviets could endear themselves to the Arabs than by adopting a sympathy energy boycott. Such a boycott would leave the Europeans as high and dry as in 1973.

Senator JEPSEN [presiding]. I welcome you here today, and we will now proceed with Mr. Fontaine first.

STATEMENT OF ANDRE FONTAINE, EDITOR, LE MONDE

Mr. FONTAINE. As you can imagine, I fully appreciate the privilege of being here and being asked to testify before your committee about such an important issue as the pipeline one.

There is a proverb in French, and maybe it exists in English, too, according to which we must not let a tree hide the forest. And I think it's very important in our search for a compromise—because I assume everybody here is in favor of such a compromise—to make sure that the pipeline tree does not hide the forest of the general United States-Europe relationship.

I am old enough to have studied the economy at a time where at least in France it was called political economy. I don't know exactly why the word "political" has been dropped today, because I don't know such a thing as a nonpolitical economy. What I see clearly is that very often we try to make economies serve the purpose of politics when it might be better if politics were to serve the purposes of the economy.

As a matter of fact, in this sanctions issue, I remember that since the war in Ethiopia in 1935, many times various governments or the United Nations resorted to a policy of sanctions against such a nation or another. It never worked. We don't have any example of a government that has been brought to heel because of economic sanctions.

The worst possible case is with the Soviet Union which tried herself to make China or Albania or Yugoslavia or Egypt yield to economic sanctions. She almost cut all economic relations with them without any result.

And I am pretty sure, knowing what the Soviet leadership is today, that the chance to see the Soviet yield on the Polish issue, due to economic pressure from the West, is extremely limited, if not for another reason because the Soviet Government is perfectly conscious of its many weaknesses. They are facing difficulties all over the world, and they perfectly know that if they were to start to yield on a particular point, they would be asked to yield elsewhere as well.

So I don't think that the present Soviet leadership which is, as everybody knows, collegial because nobody is really in charge and able to make his own decisions—I don't see how this collective leadership could yield and bring Poland more freedom simply because they are threatened with an interruption of the pipeline or anything like that.

So I think really it is a strange way of trying to approach the East-West problems.

What we have to keep in mind is that, after all, we are members of an alliance which has survived, in my view, worse crises between France and the United States. There has been a number of open crises, very difficult periods. I remember a time where there were restaurant owners in New York who used to pour their bottles of French wine in the streets of the city to protest against what they called De Gaulle's betrayal of the alliance.

Fortunately, it seems to me we are far from this climate, the big difference being that for this time it is not France only who is in opposition to U.S. policy, but that the main European countries—West Germany, Britain, France, and Italy—stand on the same line on the pipeline issue. And I think this is one thing the U.S. Government has to take into consideration if it wants to keep an alliance alive, if it wants that alliance to be worth the name. In an alliance worth the name, it is impossible to accept the idea that one power has a right to impose its will on the others. An alliance supposes an agreement between all the allies.

This Western alliance still works because it is essential, and I must say I am one of those who really were in full agreement with President Reagan when the day before yesterday he announced that American troops, together with French and Italian troops, will go back to Lebanon in order to try to prevent new bloodshed to take place in this unfortunate country.

I think that is really one very important reason for being allied, and I am glad we are completely united on that issue when in the past it very often happened that we were not.

You asked about what possibilities of compromise could be found. Of course, it is a very difficult question. I heard on the French side the idea of a compromise has been almost ruled out, but in my view I think the first gesture has to be made now on the American side, if not for another reason, because the four main European governments are on the same line, and it is impossible to imagine that the four of them would yield to such a pressure as the one which has taken place.

This being said, and if you will give me a few more minutes, I should like to make a brief examination of the various arguments which have been provided by the U.S. Government in favor of the sanctions.

I have been struck, as has the Financial Times—which I'm sorry to quote in the presence of my neighbor but which is an extremely good newspaper—that there have been too many changes in the justifications which have been put forward by the American Government in favor of the embargo. If I may quote it, "There must be something seriously wrong with a policy which requires so many shifting justifications."

There has been the Polish one that I mentioned already. There has been the slave labor one. I think, unfortunately, most of the labor in the Soviet Union is sort of slave, and we don't know exactly what is really at stake in that field. Sometimes you hear that people from the Gulag are working on the pipeline. Sometimes you hear about a half-million Vietnamese workers who have been brought to the field contrary to their will.

I think this has to be closely examined before we can pronounce a judgment about this.

There has been an argument about providing the Soviet Union with technology that could be used for military purposes. I think this argument has some value, but you must realize at the same time that everybody in this country and the West admits that for the time being Russia matches the United States in almost all military fields. So it means that their achievements in the technological field are probably much better than one could imagine when this question of transfer of technology is mentioned.

Another problem is the money that would be provided by this deal.

In a way, it is a fact that the deal will improve the economic situation of the U.S.S.R., which is for the time at its worst, and at the same time I think helping the Soviets to be able to pay their debt to the West is not necessarily a bad thing. And I think in the countries of the Eastern bloc, when the economic situation is not too bad, the quality of freedom or at least the measure of freedom which people can enjoy is usually much greater than in time of trouble. So I don't think we help the Poles, which after all is one of our targets, by refusing to let this pipeline be worked out.

To end with, I should like to quote an old French author, Montesquieu, who said: "Trade leads to good behavior and good behavior leads to trade."

I am not that sure that trade leads always to good behavior but I am very skeptical about the results of bad behavior on the relationship between all our countries. It would be a pity if such an issue, which after all is not as essential as people would believe, would help to decouple Western Europe from the United States in the economic field at a time when the U.S.S.R. is so eager to try to decouple Western Europe from the United States in the military one.

Thank you, Senator.

[The prepared statement of Mr. Fontaine follows:]

Prepared Statement of Andre Fontaine

A tree can hide a forest. Let's try to prevent the pipeline issue from masking the reality of Europe-U.S. relations.

Europe and the U.S. have been allied for 33 years. Allied against the common threat: the spreading of Soviet power in Europe. During this period no European country has become Communist, even if there are Communist ministers in France. In this respect, the Atlantic Pact has achieved it aim. But meanwhile, the Soviet Union has extended its rule over Indochina, Afghanistan, Ethiopia, Cuba, and so on. She has become one of the two super powers. She is developing a fantastic nuclear arsenal, and tries to use its existence as a means of black-mailing Western Europe, in order to achieve a decoupling of Western European defense from the U.S. The acceptance by the U.S. in 1972 of a nuclear parity with the Soviet Union facilitates this attempt.

The Soviet advance is, however, balanced by a number of economic setbacks and political (Poland) or military (Afghanistan, Ethiopia) stalemates. Pending the settlement of the secession issue, the power in Moscow is in the hands of a group of aged people, whose main ambition is obviously to keep the privileges the nomenclature enjoys, and the territories which

the Soviet army controls. Its degree of sclerosis is great enough to make any important concession to internal or external pressure very unlikely. In any case, the Army would oppose it.

Physics teaches us that there is a relationship between the weight and the power of attraction. All Europeans feel it. The risk is that too much dependence on the Soviet Union would diminish European freedom of action: what is usually, if improperly, called Finlandization. That's the reason for the continued alliance with the United States.

The question today is: would the pipeline agreement increase this attraction? Answer, Soviet gas would cover up to one third of natural gas consumption, 6 percent of total energy consumption. Depending on imports from the Middle East could be as risky. The threat resulting from a reduction of Soviet deliveries looks minor in comparison with the one reality of the existence of the SS20's. It looks of small importance in view of the scope of the contracts it will provide to West European industry. It will help the Soviet Union to pay its debts, which would be an advantage to everybody.

The U.S. Administration deplores the pipeline, believing that it will help the Soviet Union to put more money in its armaments. But never in its history has the Soviet Union reduced her military effort under economic pressure. Never has it proceeded toward liberalization in Poland or elsewhere under such pressure.

The Administration has other grievances to put forward: the possibility given to the Soviets to acquire advanced technology.

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This arguement is probably true in some ways, although the Soviets have provided a lot of evidence of their technological abilities in the space and armaments fields. Finally, there is the question of Soviet slave labor: we ought to know more about it, but one must recognize that any worker in the Soviet Union has to abide by very strict rules which are far from our conception of freedom.

Anyway, no European government is ready to yield to American pressure on this issue; they would be afraid to lose the coming elections. It is a problem of diginity and sovereignty.

This issue is raised at a time when many other problems tend to distance Europe from the U.S.: agriculture, steel, monetary policy. They could lead, if we don't take care, to an economic decoupling between the two banks of the Atlantic. The effects on East-West relations would be much worse than those of the pipeline itself. On the contrary, a compromise solution would show the strength of the alliance, which is otherwise emphasized by the deployment of Euromissiles and by the joint U.S.-French-Italian operation in the Middle East.

Senator JEPSEN. We will proceed with the statements before we get to questions, out of deference to Chairman Reuss, who had to leave to vote on the House floor. So at this time we will introduce and welcome Andrew Knight, editor of the Economist.

Will you proceed, sir.

STATEMENT OF ANDREW KNIGHT, EDITOR, THE ECONOMIST

Mr. KNIGHT. Thank you very much, Senator. It is a very great privilege for anybody from the other side of the Atlantic to be asked to testify to a committee of the Congress of the United States, and I feel very honored, sir.

I was asked by the committee staff to prepare some remarks which have, I think, been circulated, and I will take those as being read and not labor every word that is there.

Senator JEPSEN. Your prepared statement will be entered into the record.

Mr. KNIGHT. Thank you. I will add one remark before embarking on this. To some extent I take issue with the chairman of the committee in that I don't think the point of economic sanctions is to bring any adversary power to its knees. The question, in my view, is whether sanctions are inconvenient for that power and in any way cause it extra costs or in any way influence it.

I would agree with Andre Fontaine that the history of sanctions has never been very remarkable. I think of the sanctions against the country of Rhodesia that we British invoked through the United Nations.

However, I think that these particular sanctions that have been invoked against the Soviet Union have had some effect, or previous sanctions have. I was in Moscow myself before General Jaruzelski took over in Poland in quite the way he did and it was made absolutely apparent to me at the time that the Soviets themselves were extremely keen not to get directly involved in Poland, precisely because they did not want a reoccurrence of the sanctions. And the same Soviets quite willingly concede now that they are distressed that the sanctions on the pipeline should have been invoked despite the fact that they themselves did not go into Poland. They miscalculated.

I am not saying sanctions are going to bring the regime in the Soviet Union down, but I think it is idle to pretend that some damage is not done to them. Whether it is damage equal to the damage we are doing to ourselves by shooting ourselves in the foot is another question. But I don't think we should argue that no damage whatever has been done to the Soviet Union.

In the same way as the cost of the Alaskan pipeline doubled and quadrupled because of delays for environmental reasons and other reasons, I think it is quite possible that the costs of the inevitable delays, which I would put at the least at 3 or 4 years, that are going to be caused to the Siberian pipeline are going to be very large.

Embarking on the remarks that I prepared for the committee, I would just point out that the pipeline dispute is not unique, nor is the sense of present outrage on both sides of the dispute unusual. There has been a rhythm to alliance disputes since the Eisenhower-Dulles years,

and the only difference is that as time has reduced the relative weight of the U.S. economy in the world and as time has enhanced Europe's recovery from the war to the point of considerable wealth today, the misunderstandings have become more grave.

As a European, I would urge both Americans and Europeans to look behind the language of these mutual frustrations to reality. The reality does not lie, in my view, in either the Europeans or the United States claiming a monopoly of right.

The first reality, in my view, is that the stronger the trading dependence of the United States and European countries on each other, the more, like married couples, they are likely to irritate each other. The fact that the housekeeping money is short in a recession helps aggravate the marital irritation.

The second reality is that, slowly and often imperceptibly, Europe's and America's views of trade and credit with Russia and Eastern Europe have been growing apart. And this is the central fact I think we need to address. To my mind, a single decision, misguided or not, by President Reagan is having to carry the long-overdue burden of years of refusal by we Europeans, which you, Senator, referred to in your own remarks a few moments ago, to face up to the issues raised by offering easy trade and easy credit to Eastern Europe and Russia.

Each time you in the United States have taken some action, we in Europe have tended to take advantage of it. And I think of the grain exports from your own part of the world. When you did cut off grain exports—and remember that we now in Europe are arguing it is a very bad thing that you restored grain exports—it was we in Europe who actually benefited from that by selling more grain along with the Argentines and the Australians.

This dispute reminds me in its style of the aftermath of August 1971 when you will remember that Richard Nixon and his Treasury Secretary, John Connally, shattered the Bretton Woods system. I was working in Europe at the time, and I can tell you the Secretary of the Treasury, John Connally, was far more vilified in Europe then than Mr. Reagan is today. Then, as today, ironically a certain Mr. Shultz was brought in to sweep up. And in retrospect, in Europe we all conceded that the Nixon shock, as the Japanese called it, had been a necessary way of jolting us into a much wider rearrangement of our economic and financial relationship with the United States.

Such parallels are never exact. But Europe, in my view, probably did need to be shocked again on this occasion. We have had it very easy. We accept your military cover, we accept your nuclear protection, we accept your troops in Europe, and yet at the same time we do not seem to be willing to share the burden or sacrifice when it comes to trading and credits granted to the Soviet Union.

As time goes by, there will, I'm afraid, be opportunities for the United States to widen the sanctions against European companies if the United States wished to. Most of those companies, the principal one of which is in Scotland and two of which are in France and one or two in Germany, are conglomerates, and some of whose operations and some of whose export markets have not yet been touched by the U.S. embargo. When I think of John Brown, they have export contracts pending to Brazil which could easily be affected by the embargoes put on them by the licenses in the United States.

My hope and advice to the President would be to resist taking these opportunities to widen the sanctions whenever he is free to do so. On many occasions he won't be free to do so because the present sanctions will already be about, but to let it be known that they are available to him and will, if necessary be used as a way, as Mr. Nixon and Mr. Connally did in 1971, of bringing us Europeans to the table.

Once we come to the table, which I am fairly sure we will do at some time this winter—at the moment it doesn't look very likely, but then it never looked likely we'd come to the table after August 1971, but we did in the end. Once we come to the table, I hope we in turn will make it very apparent that this is the first time the United States has invoked sanctions against allies. The United States has frequently said no to projects of Europe in the past but never actually invoked sanctions. And I think that is an undesirable thing that should be resisted in the future.

But at the same time I hope the United States will make it apparent to us that the Soviet Union is still an adversary and that there needs to be common behavior in the way that we grant credit and do our trade with the Soviet Union.

Thank you very much.

[The prepared statement of Mr. Knight follows:]

Prepared Statement of Andrew Knight

The pipeline dispute is the latest in a long line of crises between the United States and its European partners. It is not unique.

Nor is the sense of present outrage on both sides of the dispute unusual or new. There has been a rhythm to such disputes since the Eisenhower/Dulles years: the only difference is that, as time has reduced the relative preponderance of the United States in the world, and as time has enhanced Europe's recovery from the war to the point of considerable wealth today, the misunderstandings have become more grave.

Or rather they have seemed to have become more grave. Both sides seem to stand, on each new occasion of dispute, to lose more than they did on the previous one. That is the clear danger today in the pipeline affair: the stakes this time seem higher only because America seems to lay down economic law from a less overwhelming pedestal than it once stood on; and because Europe seems to have more moral right and economic parity than it once had with which to answer back.

As a European I would urge both Americans and Europeans to look behind the language of these mutual frustrations, to the reality. The reality does not lie, in my view, in either side claiming a monopoly of right.

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The first reality, in my view, is that the stronger the trading dependence of America and Europe on each other, the more, like married partners, they are likely to irritate each other. The fact that housekeeping money is short in a recession helps aggravate the marital irritation.

The second reality is that, slowly and often imperceptibly, Europe's and America's views of trade and credit with Russia and eastern Europe have been growing apart.

President Reagan's pipeline decision may have been - it was - ill-timed; it may seem, in the domestic political debate here in the United States, to be a useful cudgel to beat the president with; it may genuinely threaten Atlantic economic and political relations more than it threatens the Soviet Union or General Jaruzelski - and it may do all this at a time when a financial crisis and Nato's nuclear deployment needs can least afford the sight of America's president shooting his closest allies in the foot. Yet the fact remains that a single decision is having to carry the long-overdue burden of years of refusal to face up to the issues raised by offering easy trade and easy credit to eastern Europe and Russia.

The dispute reminds me of the aftermath of August, 1971, when Richard Nixon and his Treasury secretary, John Connally, shattered the Bretton Woods system. Connally was far more vilified then in Europe than Reagan is today.

Then, as today, a certain George Shultz was brought in to sweep up. And in retrospect we all conceded in Europe that the Nixon shock had been a necessary way of jolting us into a much wider rearrangement of our economic and financial relationship with the United States.

Such parallels are never exact. But Europe did probably need to be shocked again - however ineptly this may have been done - into considering its trading and credit arrangements with the Soviet Union.

This, not Poland, is the aspect of the West Siberian gas pipeline that matters. The pipeline will at a stroke add as much each year to Russia's foreign exchange resources as Russia's entire sales of gold and armaments earn each year at present. Later it will earn double that amount. Europe's subsidised credits to Russia and its laxer attitude to Cocom strategic controls are bound to invite the impatience of a country which provides us Europeans with our nuclear, and a large part of our military, umbrella.

As time goes by there will be opportunities for the United States to widen the sanctions against European companies: most of them are conglomerates only some of whose operations and some of whose export markets have yet been touched by the US embargoes placed on them.

Indeed, some such widening is inevitable - French companies already are covered by quite wide sanctions, and even Scotland's John Brown may find forthcoming turbine orders for Brazil hard to complete.

My advice to Mr Reagan would be to resist taking these opportunities whenever he is free to do so, but to let it be known that they are available to him and will if necessary be used - and using the quiet diplomacy of Mr Shultz thereby to coax America's European partners to the table to talk about the wider issues of east-west trade and credits. There is a lot to talk about, and it should have been talked about long ago.

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Senator JEPSEN. Thank you. We will now hear from Mr. Thierry de Montbrial, director, French Institute for International Relations.

STATEMENT OF THIERRY de MONTBRIAL, DIRECTOR, FRENCH INSTITUTE FOR INTERNATIONAL RELATIONS

Mr. DE MONTBRIAL. As the last speaker, I will necessarily repeat some of the arguments made before, although I am not sure I will agree with everything that has been said so far.

I would like, Senator, to regroup my remarks under four headings:

First, why this pipeline at all?

Second, a few remarks on the subject of trade with the Soviet Union in general.

Third, the sanctions themselves.

And last, a few conclusions about what to do.

I will make a number of points. I will not try to prove or elaborate on every one. Maybe this can be done later on if you wish, Senator.

Why the pipeline? I would like to make five points.

First, because of physical, political, or other kinds of contraints on various energy sources, most European countries have found it necessary to develop gas imports.

Second, we must recognize that very few countries can or are willing to supply the gas needed for the 1990's. Traditional sources, such as the Netherlands, are on the decline. Norway is not willing to export gas, although there have been, in the recent past, some signs, some indications, of a more flexible attitude on its part.

Nigeria, which is also a country often mentioned in this respect, has not prepared itself to become a major exporter. And all in all it appears that only the Soviet Union has both the resources and the will to export.

The third point: Lack of coherent energy policies on the part of industrialized countries since the first oil shock of 1973 unfortunately—and I must say this is very unfortunate—results in the fact that we are not in a position now to envisage seriously other solutions for the next decade. In particular, I think we have to recognize that the United States has not made any serious alternative proposals to the Europeans.

The fourth point: By 1990, a country like France or like the Federal Republic of Germany should import about 30 percent of its gas from the Soviet Union. This means about 5 percent of its primary energy requirements. We are taking measures to limit the consequences of an interruption of these supplies should they happen. Such an interruption could be accidental or political. In the latter case, we would be very close to a war, and many restrictions would have to be imposed on our populations anyway. This means, Senator, that in Europe—everybody does not agree—but in general we think that our independence or security is not jeopardized by this deal as much as it is sometimes said.

Point five: It is possible to argue that it makes sense to save the Western energy resources or reserves and to draw on the Soviets. I am surprised that this point is not made more often. But after all, is it not good to keep in reserve the oil we may have in the North Sea, for instance, for later use, and for the time being to draw on the Soviets' resources?

I switch now to my second point: The question of trade with the Soviet Union in general.

Most European governments hold the position that since we are not at war now with the Soviet Union, there is no reason to interrupt trade, provided that this trade is based on mutual interest, provided that it is not unilateral gifts, and provided it excludes military-sensitive products, although it is sometimes very difficult to draw a line between what is military and what is not.

Second—and this, I think, is a very fundamental point—we generally believe in Europe that to regulate East-West trade would mean to depart very seriously, very fundamentally, from free market forces. It is just impossible for technical and practical reasons, not only for political reasons, to wish to control East-West trade and at the same time to leave individual firms in the West making deals with government agencies in the Soviet Union. In fact, Senator, it is my opinion that if we decided to regulate very seriously East-West trade we would have to go as far as to channel all our trade with the Soviets through government agencies, first at the level of each of our countries, and then in a coordinate way. And these agencies would have to have the monopoly of negotiating with similar agencies in the Soviet Union.

But I repeat, I think that it is not realistic to ask for the regulation of East-West trade in the current framework based on free market forces.

No. 3—and this point was made before, although with a different nuance: The Europeans tend to emphasize the inefficiency of embargoes. Not only that, but sometimes embargoes are counterproductive. My friend, Andrew Knight, mentioned Rhodesia. Is it not true, Senator, that the prosperity of Rhodesia was to some extent due to sanctions, because it forced them to develop a lot of activity they would not have developed before.

Another example, South Africa. If South Africa today is the leader in the world for synthetic oil, this is because it has lived in the last 30 years under the threat of an embargo which has never really materialized. But they have had to, as if they could be subject to such an embargo, and that is why they have undertaken these high technologies for which they are now the leaders.

In addition, we often believe in Europe that it is a mistake to try to solve what are essentially military problems—that is, the question of the balance of power—by nonmilitary or by economic means. If we need to establish the balance of power, we have to do it in the proper way, which is through military means.

The fourth point: Most Europeans emphasize what they perceive as a lack of coherence of American foreign economic policy. And I refer here to the question of the grain deal. The arguments for the grain deal have been heard over the months, but today the argument most often used is that by selling grain to the Soviets, the Americans draw on Soviet cash, whereas by buying oil we do the reverse. To us, Senator, this looks like a joke.

And now I turn to my third chapter which is sanctions, and here I will make seven points.

First, most Europeans believe that the Soviet military policy and the Soviet policy in Eastern Europe will not be influenced by the sanctions. The sanctions may have some other effects but not in these

fields which are at the heart of Soviet survival, in their view, and we will just not influence them that way.

Second, Andrew Knight spoke of the delays which will result from the sanctions, but there would have been delays anyway. We know that very well. There always are delays in these sorts of deals. My point, Senator, is that the sanctions will be used by the Soviets as an excuse for all kinds of delays, including those which would have happened anyway.

Third, and more serious, the Europeans could be tempted to use the sanctions as an alibi to take certain protectionist measures. Let us not forget that all this happened in a situation of very deep economic crisis, and I think that the probability that several countries will take serious protectionist measures is relatively high, and I wouldn't like the sanctions issue to be used as an excuse.

Fourth, the juridical position of the United States is considered very weak in Europe.

Fifth, the sanctions will create feelings of mistrust which will be detrimental to future transatlantic trade relations, particularly in the technology area.

The sixth point, the sanctions are perceived by the Europeans as incompatible with respect of their national sovereignty.

The last point: Overall, most Europeans believe that the sanctions will do more harm to the intra-West relations than to the Soviets. I'm not saying that they will do no harm to the Soviets. I am saying that they will do more harm to our internal relations than to the Soviets. The sanctions will encourage decoupling between Europe and the United States.

And now, Senators, I switch to my conclusions, and here I will make three points.

First—and here I might slightly diverge from what Andre Fontaine said at the beginning, maybe because I am younger than him, slightly—I think that the present deterioration of transatlantic relations is more serious than those of the past—not for the substance of our disputes because we always have had trade disputes and disputes similar to those we are having now. At some points we have had much more substantive divergencies—I am thinking, for instance, of the 1956 Suez crisis—but the difference today is that this is happening in a context of great fragility because of the economic and the security crisis. And, therefore, additional shocks are much more difficult to absorb than they were in the past.

Second, I think—and many in Europe think—that most divisive issues among us—and the existence of those divisive issues is unavoidable—could and would be resolved if there were more continuity in American foreign policy, and if those difficulties were not exacerbated by unilateral action and unnecessary harsh rhetoric. Therefore—and we saw proof on both sides, of course—we should make major efforts in the direction of moderation.

When you have disputes in an office or anywhere, this should not leak outside. This should be kept among us. And this is the only way to avoid further deterioration.

So this is a recommendation which may look very—well, it's not a major breakthrough, but nevertheless I think it is very important to insist on the necessity of some discretion and moderation to settle our disputes.

And now I come to my last point which is perhaps the most important one. I think the only way to get out of this very embarrassing situation would be to lift the sanctions and to launch now a very serious discussion among us on the future of East-West relations, in particular the future of East-West trade, in a long-term perspective, because this is the question: We have had and we are going to have more troubles just because we do not agree on the analysis, on the nature of the problems, which are with us, and so long as we have not reached some basic, common views, and have been unable to build a common strategy, we will have further disputes, and this will just give additional chances to the Soviet Union.

Thank you, Senator Jepsen.

[The prepared statement of Mr. de Montbrial follows:]

Prepared Statement of Thierry de Montbrial

Pipeline and Sanctions

I. Why the Pipeline?

1) Because of physical, political or other constraints on various energy sources (oil, nuclear, coal, etc.) Europe needs to develop gas imports.

2) Few countries can supply the gas needed for the '90s--traditional sources, such as Holland, are on the decline. Norway is not willing to export to the required level. (There are now, however, indications of a more flexible attitude on its part.) Nigeria has not prepared itself to become a major exporter. Only the USSR has the resources and the will to export.

3) Hesitation on the energy policies of most industrial countries since the first oil shock have not permitted to envision seriously other solutions. In particular, the U.S. has not made any serious alternative proposals to the Europeans.

4) By 1990, a country like France (or Germany) should import about 30 percent of its gas from the Soviet Union. This means about 5 percent of its primary energy. Measures are being taken to limit the consequences of an interruption of these supplies. Such an interruption could be

accidental or political. In the later case, we would be very close to a war, and many restrictions would have to be imposed on the population anyway.

5) It is possible to argue that it makes sense to save the Western energy resources, and draw on the Soviets.

II. Trade with the Soviet Union

1) Most European governments hold the position that, not being at war with the Soviet Union, we should not interrupt trade, provided it is based on national interest without unilateral gifts, and it excludes military-sensitive products.

2) Regulating East-West trade to make it a political investment is very difficultanyhow. It is probably incompatible with the free market. It would probably require channeling all East-West trade through government agencies which would have the monopoly of negotiating with the Soviets.

3) The Europeans tend to emphasize the inefficiency of embargoes. In addition, they think that it is a mistake to try to solve military problems (notion of balance of power) by economic means.

4) The Europeans emphasize that they perceive a lack of coherence of American foreign economic policy (grain deal).

III. Sanctions

1) Most Europeans believe that the Soviet military policy and its policy in Eastern Europe will not be influenced by the sanctions.

2) The sanctions will be used by the Soviets as an excuse for execution delays that would have occured anyway.

3) The Europeans could be tempted to use the sanction as an alibi to take certain protectionist measures.

4) The position of the U.S. is considered very weak in Europe.

5) The sanctions will create feelings of mistrust detrimental to future transatlantic trade relations.

6) The sanctions are perceived by the Europeans as incompatible with the respect of their nation sovereignty.

7) Overall, the Europeans believe that the sanctions will do more harm to the Intra-West relations than to the Soviets. The sanctions will encourage "decoupling" between Europe and the United States.

IV. Conclusions

1) The current deterioration of transatlantic relations is more serious than those of the past because it occurs in a climate of economic and security crisis. Therefore, additional shocks are more difficult to absorb.

2) Fundamentally, most Europeans believe that most divisive issues among us could and should be resolved if

there were more continuity in the American foreign policy, and if the unavoidable difficulties among us were not exacerbated by unilateral action and unnecessary harsh rhetoric.

3) The best way to take us out of this embarassing situation would be to lift the sanctions and to launch a serious discussion among us on the future of East-West relations, in particular East-West trade, in a long-term perspective.

Senator JEPSEN. Thank you.

I find myself in agreement with much—not all—of what you have said this morning. Your statement has been very well presented and very thoughtful. I have some questions for you, and some points on which I would like to exchange with you.

EUROPEAN AGRICULTURAL EXPORT SUBSIDIES

Mr. Fontaine, you said that trade leads to good behavior and good behavior leads to trade. I wish to refer to what some of us—especially those of us who represent the agricultural community in this country—consider to be bad behavior, such as the European Community subsidies for agricultural exports which deny us a share of the foreign market.

I have visited with the European Economic Community representatives on this, and at one luncheon here they seemed to agree that they should carefully examine those and ease restrictions, but there has not been a sign of that happening as yet.

Would you comment on this, please.

Mr. FONTAINE. Well, I think the food problem in the West is one of the worst we have to face. I read a few weeks ago a headline in the Financial Times according to which there was a record crop in Europe in all of the fields, and that it was a disaster. When we live in a world where hundreds of millions of people are near starvation, it is a pity we have to come to consider that a record crop could be a disaster.

Our problem is the same as yours as far as production is concerned; we produce too much in a world where we need consumers with enough purchasing power to buy what we produce. So I think there is no real solution to our rift on the agricultural issues if we limit ourselves to the European-American relationship.

What we have to try to cope with is the problem of feeding the world. And if we really cope with that problem, if we dedicate our will to finding a solution to that problem, then I think there are plenty of achievements which can be found.

SHOOTING OURSELVES IN THE FOOT?

Senator JEPSEN. Mr. Knight, I appreciate your remark about our having shot ourselves in the foot, perhaps, with sanctions. A few moments after the grain embargo was announced by then-President Carter, I was called—as the Senator from Iowa and a member of the Agriculture Committee—for my reaction. My comment was "we had just shot ourselves in the foot."

I think that based on history and facts, that expression is a very accurate and dramatic description of exactly what happens when sanctions are applied.

Mr. Knight, did the Europeans force the United States to invoke sanctions against firms in France, Scotland, and Italy? Did we have any alternative after the European governments pressed their firms to export to the Soviet Union, in your opinion? How do we avoid this problem in the future?

I noted you said this was the first time we had invoked sanctions against Europe. You also indicated in your closing remarks that you

felt that the President should resist taking these opportunities whenever he is free to do so but to let it be known that they are available to him. In other words, we took them, and you believe that's a mistake.

But how do you get the results? What do we do when some would say that we are forced to invoke sanctions?

Mr. KNIGHT. Senator, it was a shame that sanctions were taken. On the other hand, I think that it was not inevitable but it was extremely likely one day. I think that sanctions, if they had not been taken now, would have been taken sometime on some other projects, because I don't see how long the United States can go on waging a commercial war with the Soviet Union in which it is not supported by others. And I think that this thing had to be brought to a resolution sometime.

My point on the grain sanctions—and I wouldn't expect you necessarily to agree with me—is that there is no point in taking grain sanctions if in fact all that is going to do is increase the market share of Argentina, the European Community, Australia, and Canada.

If there is to be action in the civil as opposed to the military field, aimed at restricting the Soviet Union's freedom of maneuver, then if alliance means anything it has to be joint and it has to be supported by the main countries involved. And clearly we have a case in front of us in the case of the pipeline where it is not supported by the main countries involved.

SANCTIONS MAY PROVE USEFUL

My hope is that, brutal and rather ill-timed action though it is that the President of the United States has taken, there may be a silver lining in the cloud in the form of an agreement sometime during the next year which would, as Thierry de Montbrial quite rightly said, address our differences over the issue as a whole of East-West trade and East-West economic relations.

The history of sanctions against other countries is such that you can actually argue it both ways. In fact, as we have some reason to know in the United Kingdom, the sanctions against Rhodesia were in fact quite successful. What they did was that they encouraged a tremendous amount of self-sufficiency in Rhodesia which Rhodesia didn't have otherwise. But all that self-sufficiency meant was that Rhodesia was paying twice as much for its toothpaste than it would have been able to if it had been able to buy it from Europe. It became very proficient in making toothpaste.

Senator JEPSEN. While we were paying three times as much for chrome.

Mr. KNIGHT. Yes. And in the South African case, the South Africans through their synthetic oil are having to pay more than twice as much as they would otherwise have to do. South Africa is getting away with it for the moment because there is such an abundance of oil supplies that there are any number of tankers, which have destinations like Singapore mostly, but whose cargoes are, in fact, going to South Africa.

The history of sanctions aimed at foreign powers suggests that they have to have a reasonable consensus of the people who are involved. The bad part of the present pipeline embargo is that only one side is actually taking these actions.

The good side may be to come. We may have a situation where it becomes so painful for alliance relations in general and so painful for the firms involved—without naming any names, there is a very good chance, or rather a very bad chance, that one or two of these companies are likely to go bankrupt—that as bankruptcies actually approach, which will take a few months yet, you will see considerable pressure from the host governments of those companies involved to try actually to work something out more sensibly with the United States. And then, I would hope, will come the moment when the United States, under its President and under its Secretary of State and advised by the Congress, can be statesmanlike about it.

Senator JEPSEN. Mr. de Montbrial, given the Soviet Government's intervention in their own economy, is it even possible to carry out an East-West trade using market forces? You know, we now use an elaborate system of countertrade or barter and subsidized export credits. Have we already interfered, therefore, in the free market forces?

Mr. DE MONTBRIAL. Senator, I can elaborate on this a little bit.

TRADE REGULATIONS ARE OFTEN CIRCUMVENTED

First, I think that in free market economies, being what they probably are, you will always have loopholes for any kind of regulations. For instance, if you want to forbid the selling of certain products, there will in most cases be ways to find them elsewhere.

I know, for instance, of some cases of chips for semiconductors which are not supposed to be sold to the Soviets but are in the market in Singapore.

Now, the interest rate regulations and all that—as you know, it is very easy to control any decision on interest rates. First, most contracts are just not known by the government authorities or bankers, and how do you know that high interest rates, for instance, have not been compensated by lower prices, which means that there is a problem of monitoring the decisions which have been made.

And I could apply these sorts of examples, which means that I, for myself, and many people would agree on the principle that we should not make any gifts to the Soviets, and that if trade is to be continued it should be on a normal basis.

The trouble is that this sensible principle is very difficult to implement, and here the Soviets have a formidable advantage, because they negotiate as a unit, as a relatively coherent group, whereas we in the West negotiate in a totally different way, not only because we are different countries but within each country because it is firms and not governments which negotiate. Again, there are so many ways to go around regulations that you never know what is actually done.

That is why if we have someday, as I think we should, these serious discussions on the future of East-West relations and the future of East-West trade in particular, we should seriously think of what have to be the means of our policies.

If you will allow me a last point, I would like, Senator, to say this: It is very important to know ourselves. It is the case for individuals and it is the case for nations. And it is important to know what one can do and what one cannot do.

I think that the modern capitalist or mixed economies have obviously tremendous advantages, but they have also their drawbacks and their weaknesses. And one of these drawbacks and weaknesses is this difficulty to deal with nonmarket economies, whether Eastern European or socialist countries or developing countries.

Another drawback is that in our type of societies, the seller depends on the buyer much more than the reverse, which means that when you have created certain trade channels it is very difficult to reverse them because of the unemployment issues and the like. And this, of course, is one of the main arguments for your own grain deal.

So I think, before embarking on unrealistic decisions, we should clear up our minds on the conditions which should accompany any policy in order to be implemented.

SHOULD MILITARY PROBLEMS BE ADDRESSED BY ECONOMIC ACTION?

Senator JEPSEN. The expression "decoupling," I believe, was used by two of the witnesses, a concern that we might continue down this path with the danger of decoupling our relationships. It was also stated there was concern over attempts to solve military problems with economic means, and that this approach doesn't work. You stated that specifically, and there was also some innuendo about that.

Let's pursue that for a moment. Is there a better or more effective way of preventing and overturning Soviet aggression in Poland and Afghanistan? How should we do it? Or should we?

Mr. DE MONTBRIAL. Senator, I think the two cases are totally different, Afghanistan and Poland. In the case of Afghanistan, it is my view that it would have been possible to avoid, to prevent, the Soviet invasion of Afghanistan if we had sent the right signals to the Soviets before it happened. Unfortunately we did the reverse. And there is a lot of evidence that the Soviets thought that they had their hands free to get in.

Of course, what they did not anticipate is that, first, it would be more difficult to occupy Afghanistan than they thought, and they did not anticipate also that there would be some reactions in the West. But they just did not send beforehand the right signals. And it is my view that if we had done it, they just would not have intervened in Afghanistan.

So these things have to be dealt with in advance, not after the event takes place.

The case of Poland, I think, is totally different. I know this is a matter of controversy, but I think this unfortunately touches on the heart of Soviet security, and to them it is a survival issue. It is a survival issue because it has to do with the whole future of their eastern flank and possibly marginally with the whole future of their empire.

And being a survival issue, I think that whatever we may do it will have marginal impact.

Do you want me to comment on the decoupling issue?

Senator JEPSEN. Well, you have indicated, I believe, in your remarks that most Europeans believe that Soviet military policy and policies in Eastern Europe would not be influenced by sanctions. I believe someone else said that they never have been. Do either one of the other two gentlemen care to comment on this?

Mr. Fontaine.

Mr. FONTAINE. I would say, first, I feel in wide agreement with what Thierry de Montbrial said about Afghanistan and Poland. But in a way, we have to consider that in some measure it is the same problem Russia is facing in both cases. How can a power which has always believed it was on the side of history, react when history seems to go contrary to that hope.

In both cases a Communist power has been challenged by the people. As Thierry de Montbrial rightly pointed out, it is a question of survival for them. They cannot accept the idea that Communist power could be overthrown by the people. This is the central point. And this is the reason why I suppose most observers in Europe were absolutely convinced that sooner or later the Russians would do something to prevent the situation in Poland—to deteriorate more. I don't think that the Soviet leadership could accept the idea of a completely free Poland, and I think there have been at least some dangerous moves on the Solidarity side. When, at their Congress in September last year, there was a call for the workers of other Communist countries to create free unions—it was an open challenge to the Soviet power. I must say that day I was extremely frightened for the future of Poland.

I think what we could try to do is to help the Soviets some day to find a way out of the situation, because for the time being they are facing a complete stalemate. My feeling is that they don't know what to do with Poland. There has been no resumption of work. The inflation rate is fantastic. They don't know where they are going. So I'm afraid with the kind of leadership which the Soviet leadership presently has, it is unlikely they can do something in the near future. But some day there may emerge a real leader of the Soviet Union. We have to prepare for that future and to look for a kind of solution which could be found in order to make the Poles more free than they are today without endangering the security of the Soviet system. But it is absolutely hopeless in my view to think that the present Soviet leadership could be brought to accept such a major change.

So I think that is the problem we have to face. In the Soviet Union today there is something like an interim government. It is under the control of the Army which would not let them make any major concessions to the West, and I think that is the reason why we cannot hope really to influence them.

I am a little more pessimistic about Afghanistan. I think they have the same problem in Afghanistan. They could not yield to popular insurrection and they had to intervene. Otherwise for them it would be a major encouragement to all those who, inside the Soviet empire, contest their power.

As far as the kind of pressure we can have on them is concerned, I think it depends on us finally, on how united we are. What the Soviets have always been able very well to do is to encourage the idea of decoupling. That was their target since NATO existed. I remember in 1956 when our prime minister at the time, Guy Mollet, and Adenauer both visited the Soviet Union at a few weeks distance. The Russians told the chancellor, "How can people like the German people accept being under control of the French who are their long-time enemies?" And to the French Prime Minister they said, "How could the French who have suffered so much from the Germans become their allies?" They had not imagined that Adenauer and the French Prime Minister would exchange their views about the talks they had.

So I think this idea is absolutely central to the Soviets. It would be a major achievement for them if, for instance, any government in Western Europe were to finally refuse the deployment of the Euromissiles.

What I am afraid of is that if we go into a major economic rift between the United States and Europe about the pipeline or other issues—and there are many other issues as have already been mentioned here—then they would have the advantage of adding to the threat of a military decoupling, the threat of an economic decoupling.

Senator JEPSEN. Mr. Knight.

Mr. KNIGHT. Senator, I think we have to realize that the Soviet Union is a much more discrete place than any of our Western countries and when something hurts them, they don't get up and scream with pain. They are extremely disciplined. They do not have a Congress, and they do not have any forums where disagreement can be expressed.

I think it is important to remember that, because without remembering that it is difficult to judge what the effect of actions that we take, both military and civilian, actually are. I think that one can only report what one has seen and try to analyze what has happened.

In terms of reporting what one has seen, Andre Fontaine very correctly said that all of us in Western Europe who had links with Eastern Europe and with the Soviet Union and contacts with them fully expected something to happen in Poland. The astonishing thing to me, which led me to ask more and more frequently this question of Soviet citizens that I met, was why on earth the crackdown in Poland didn't happen a year earlier; indeed, month after month after month, it didn't happen. Why was it that the Soviet Union didn't march in Poland earlier when it could have cracked it earlier? It let the tension build up in Solidarity. In the fall of last year, some of us even began to think that maybe this thing in Poland was going to last, and maybe the Soviets had actually in this case lost their nerve, that they were actually looking for a way of somehow coexisting, and that as long as Poland didn't leave the Warsaw Pact, they could let happen what was happening in the unions and factories.

And one has to ask one's self—and I did ask at the time—why was it? I am quite convinced in my own mind that it was what had happened after Afghanistan, the sanctions that were invoked against them. I know this isn't a good argument for your constituents, Senator, but one has to ask why they didn't move earlier, and I am quite convinced that they were deeply shocked by the sanctions that were invoked against them after Afghanistan.

Now, there is a very real difference between those sanctions after Afghanistan and the present sanctions against the pipeline. The sanctions after Afghanistan threatened the Soviets precisely because Chancellor Schmidt in Germany and, to some extent, President Giscard in France wanted to help the United States. They didn't go along with the full gamut of sanctions that the United States wanted to invoke. There was the dispute over the Olympic Games, you remember, where only the Germans fully went along. But the Soviets could see that there was a very real chance if they went on behaving brutally—for instance, if Soviet tanks went into Poland—that Europe and America would really get their act together for once, whereas the Soviet strategy is based on keeping Europe and the United States apart.

Therefore, one can see where sanctions are actually invoked jointly and where there is some consensus between us, the Soviet Union is extremely fearful of them.

And I think we only have to look at what has happened since the heyday of détente. If one takes the heyday of détente being the Nixon and Brezhnev summits and thereafter, it was quite remarkable to see the list of things that then happened as authority in the United States deteriorated. When authority in the United States deteriorated after Watergate, you had a quick succession of occurrences—Angola, Yemen, Afghanistan, and Poland.

I entirely agree with Thierry de Montbrial that Afghanistan and Poland were very different cases, and indeed all of these were very different cases from one another, but they had one thing in common. What they had in common was that the Soviet Union felt that it was free, that it had a certain scope for action. And finally it was felt that it had a certain scope for action in Poland, and it hoped that by taking minimal action and leaving it to General Jaruzelski that it would not invoke a repetition of what happened to it after Afghanistan.

Well, it had some repetition, but I'm afraid it's been of a very stuttering nature, and only one ally, namely, the United States, thus far is actually invoking sanctions. And the result of that, of course, is a dream for the Soviet Union because it has one ally separating itself from the other allies, and that, of course, very much suits the Soviet Union.

It therefore is incumbent on us as allies either to get our act together by dropping the sanctions or to get our act together by working out a framework of future relations and of future carrots and sticks that we are willing to use toward the Soviet Union. And my hope, if I may repeat myself, is that the sanctions issue will actually provoke that very, very important discussion.

Lenin said, did he not, that the West one day would make and sell the rope with which to hang itself. And it is so easy for all of us to say, "Well, we need the gas; we need to sell these things; there are jobs at stake." That is precisely what Lenin thought we were going to do. We are playing into their hands.

Senator JEPSEN. Thank you. I have just one closing combination question and comment.

I find that the ribbon that has been woven through the fabric of the exchange here this morning is essentially that, if nothing else, the pipeline sanctions have surfaced the long-festering international trade conflicts between the United States and Europe. And I agree that these conflicts must be effectively dealt with. The methods used in the past have not worked. This time, many of the European nations are citing difficult domestic economic circumstances and are not vigorously supporting new talks on world trade. It may be that the tension created by the U.S. pipeline sanctions has contributed to their lack of support for trade liberalization or, in some instances that tension may be used for a convenient excuse for avoiding these trade talks.

IS A UNITED STATES-EUROPE TRADE SUMMIT NEEDED?

In any event, is it time right now for a United States-Europe trade summit?

Mr. FONTAINE. Well, first of all, I wonder whether it would be useful to have such a summit without the presence of Japan, which is one of the major partners in world trade. Then we have had this discomforting experience of the Versailles summit. We had 2 or 3 days of dis-

cussion after a long period of preparation. In France, at least, there has been much expectation—in my view much too much expectation. The experience is that summits very seldom lead to important conclusions because of lack of time. If there has not been some measure of agreement beforehand, it is very unlikely all differences can be solved in 2 days of discussion.

In the same way I think discussion in depth of all the problems which we are facing—I should say all the economic and political problems which we are facing, and which are obviously interrelated—has to take place. What I wonder is if the formula of the summit for the time being is the most convenient. I should rather think that what we would need is a rather lengthy discussion between people who really know about the world situation, about the policies of the various governments, and who have time to review the major issues and to try to find out the compromises which we obviously need.

Of course, there is the GATT ministerial meeting in some weeks, and it would be better if something could be achieved before. But I wonder whether it is possible.

What we have to take into consideration, it seems to me, about such a discussion is first that for the time being the administration in this country and in my country belong to completely different schools of thought. You believe in free trade; you are a liberal country. In my country I don't completely share the present views, but there is still a belief that we can comply with Mr. Keynes' teaching in spite of many recent failures. To reconcile the socialist approach of President Mitterrand and the liberal approach of President Reagan would take time.

The second observation I would like to make is that, as I have said several times, our relationship is in trouble. I think it's the whole world which is in trouble today. I wonder where the crisis is worse. Is it in the developed world? Is it in the Third World? Is it in the Communist world? I don't see, with the exception of Switzerland, any country where people are satisfied with the way things in the economic field are going.

So what will probably be necessary is to try to have a real examination in depth of the present situation of the world.

We are very eager in France, as you know, to insist on the necessity of a radical improvement of the North-South relationship, because it seems to us that even if we don't take into consideration the humanitarian aspects of the situation, which after all have their importance, it is difficult to imagine how a surplus of production, both agricultural and industrial, in the developed world could be absorbed without creating purchasing power in the undeveloped countries, where the levels of consumption are so low.

So I think this is really a central issue. I know it is extremely difficult to solve, but I know, too, and I think all Frenchmen of my generation know that thanks to the Marshall plan in 1947, our economies, which were absolutely in a mess, in an awful situation—nobody saw how to get out of that mess—suddenly recovered, and so quickly that we did not even use the total amount of the Marshall credits, which was after all a fantastic achievement.

I don't think to make a comparison with the Marshall plan would be adequate today because, of course, the countries which you have

to promote are far from the degree of technological, industrial, intellectual development that Western Europe enjoyed 40 years ago. But if there is not something like a redistribution of the world wealth in order to let the underdeveloped countries and the newly arising countries have an access to what the developed countries have—if something is not done in that direction, I think the hopes of improving the world situation are very gloomy and the decay probably would extend to our own country. I don't see any prospect of recovery for Europe outside such a venture of such a scope. Thank you.

Senator JEPSEN. But should there be a trade summit: Yes, no, or not yet?

Mr. FONTAINE. Very briefly, I think if we do it now it's too early, because we'd meet the same difficulties as in Versailles. But if something could be prepared in depth during the coming weeks, I think it would be a worthy thing. But I think some degree of agreement has to be reached before the summit meets; otherwise you would meet only frustration.

Senator JEPSEN. Mr. Knight, do we need a trade summit: Yes, no, later, or never?

Mr. KNIGHT. Yes, Senator, not yet but prepared for.

You may recall that I mentioned there was a rhythm in such disputes. It is rather like when you buy apples at the Safeway. They are often not quite ready to eat, but they get ready fairly soon thereafter. And I think we are going to be approaching that period quite soon, provided that the attentions of the U.S. administration and of other governments aren't completely monopolized by the Middle East. I think the Middle East comes into this in a very important way.

All of Europe is very admiring at the moment of what President Reagan is trying to do in the Middle East, albeit there is little success one can see so far, but at least for the first time in many, many years the Europeans and the Americans seem to be on the same track as to what should happen in the Middle East. And I think that is quite propitious.

For example, President Mitterrand's administration, as Andre Fontaine just said, does not have many things in common with the American administration, but they do agree about two things. First of all, they agree about their approach to the Soviet Union. Mitterrand has pleased many Americans and vice versa. They have found some comforts.

Second, the working relations between the French Government and the American Government in the last few days, the last few weeks, and the Italian Government, have been very, very close indeed, and I think there is something of a mutual admiration club between the foreign ministers of those three countries. And that is a very fruitful thing on which to build. It is no secret that Mrs. Thatcher, referring to my own country, is a great admirer of both the Secretary of State, in a personal sense, and also of the President. I think the problem is the situation in Germany. The timing of a summit is going to be particularly difficult for the next six weeks, and Germany is perhaps the key European country involved in the pipeline.

But putting Germany aside, I think the time is really quite propitious for the advance work to be done of the sort that Mr. Fontaine referred to leading to a summit. And just as a footnote, it is worth

remembering that the man in the chair of the next summit will be none other than Ronald Reagan, and that summit is due next year. I would have thought it was worth thinking of possibly advancing that summit by a few months and preparing the ground for it now.

Mr. DE MONTBRIAL. Senator, obviously you have difficulty in having a one-word answer to your question, so I will ask your permission to say two or three sentences.

I think that the question is not to have a summit for the reasons which were indicated before. I mean a summit is probably not the right way to solve such highly complicated issues.

I will reformulate your question: Don't we need some kind of new Bretton Woods and GATT agreements? After all, the whole prosperity of 30 years after World War II was based on these two major institutions, the IMF and GATT. And it is my view if we had at the end of the 1960's renegotiated the Bretton Woods agreements, and to some extent the GATT arrangements, we could have avoided much of the subsequent difficulties.

This is how I reformulate your question: Have we not reached a stage where it is not only necessary but vital to redesign the whole framework of our economic relationships because the conditions are so different from what they used to be that obviously the current rules no longer work, and there is this East dimension and the South dimension mentioned by Andre Fontaine.

But at the same time I am aware that these things are terribly difficult, and that is why I would not like to speak of a summit meeting for that. If you look at history, the great conferences which have shaped new orders have usually lasted much longer than 2 days. I am thinking, for instance, of the Vienna Conference.

So the question I ask myself is: Should we not launch some very ambitious conference, much more than a summit meeting? It could be opened and closed by a summit meeting. But is it not time to launch something much more ambitious, which is the shaping of the rules of the game for the world of the 1990's and the year 2000?

Representative REUSS [presiding]. Thank you, Senator Jepsen, for leading this very interesting dialogue for the last hour. I unfortunately ran into a lot of bells and motions, but I am very grateful for our bicameral system this morning. It worked out fine. I know you have to go in a minute, too.

I really have one central question which relates to the pipeline and underlies our discussion, and that is this: We have the pipeline that is going ahead. We have the U.S. sanctions and they are in place. How do we extricate ourselves from this problem? Extricating ourselves will not solve all of the problems, but it will remove one current burr on the saddle that is causing trouble.

Earlier, at the opening of the hearing, I suggested that the United States probably had some legitimate concern about the very, very generous interest rate concessions which the Europeans are making to the Soviet Union, and I also suggested that the Europeans had some legitimate concern about the very heavy artillery-like nature of the sanctions that are now being imposed.

Would it be possible, in your views, to work out a solution which included on the European side reducing the extent of the interest rate subsidy made to the Soviet Union in the pipeline sales, and on the

U.S. part, and in phase with that, dissolving the sanctions and going back to where we were?

Because you have to go in just a minute or two, Mr. Fontaine, I turn to you first.

Mr. FONTAINE. It is difficult to speak on behalf of the four European governments which are involved, and especially of the German one since it is about to change. We don't know what the future Chancellor's intentions on these issues are.

On the French side we have an election in a few months' time, local elections, but they are very important to government. And I am pretty sure that for the left, which after all is in power, the idea of yielding in some measure to the American pressure, even if there is a counterpart, will not be very easy to sell.

On the British side, I suppose Mr. Knight can speak much better to that than I can, and I think the Italian involvement is less important.

But what I think is that if there is a real gesture on the American side, as the one which Thierry de Montbrial recommended, which is simply to lift sanctions, then there could be an answer. But there must be a gesture which would look generous. Something of that kind would change the climate and could probably lead to a better understanding.

Representative REUSS. Thank you for your answer and also for your eloquent and very pointed testimony today. And I know you now have another engagement.

Mr. FONTAINE. Thank you, Mr. Chairman.

Representative REUSS. Mr. Knight, would you address yourself to possible solutions to the impasse.

Mr. KNIGHT. I think, speaking as an editor, it is very easy to write in a single sentence that there could be a tradeoff, and personally I would certainly like to see that. I suspect that in implementation it would be quite phony and quite difficult.

As I understand it, the banking industry deprives the American banks of the sort of cover that European banks can get under the EECD and government-guarantee arrangements, so the effective situation is that the American banks can, if they wish—and they do seem to have wished to in recent years—have a monopoly of imprudence in their lending, whereas the German, British, and French banks are able to lend at least a portion effectively guaranteed by the taxpayer. And, of course, once you can lend guaranteed by the taxpayer, you are in a very much better position to offer a credit rate which does not reflect the fact that if you didn't have that guarantee from the taxpayer you'd be making an extremely imprudent loan.

And once you get into the terms of credit, those terms of credit quickly become tied up with counterpart deals, with pricing arrangements, so it is often very difficult to see whether a 14-percent rate on a loan is really 14 percent when, in fact, you have just given a concession on the price, or whether a 7-percent rate is really a 7-percent rate when you have in fact charged more, with the active knowledge of your Soviet state trading partner.

So it will be a problem which will be extremely difficult to resolve in detail, but nevertheless it is the sort of political tradeoff that I think should be attempted.

Representative REUSS. Mr. de Montbrial.

Mr. DE MONTBRIAL. Mr. Chairman, this is a difficult question. In the case of France, I would like to draw your attention to the fact that a

few months ago we have significantly raised our interest rates and commissions to the Soviets with the result that our trade with them has declined very, very sharply since then, which is some kind of proof of efficiency of the new measures.

But in general I would like to make two points.

One is again the difficulty of any sort of arrangements regarding interest rates because there are too many loopholes and ways to get around it. You cannot separate totally interest rate conditions from the general conditions of any particular deal, so there is a real difficulty in principle there.

The second point is that as far as the pipeline issue is concerned, I would say that it is very difficult to renegotiate contracts which have already been made, and I can easily conceive of some kind of a tradeoff regarding the future evolution of East-West trade, but I find it for the time being very difficult to see how already-made contracts could be revised.

Representative REUSS. I want to return in a moment to the possible efficacy of such a tradeoff, but let me first ask: Would you agree with me that some movement by the Europeans on the question of credit subsidies to the Soviet Union is a more agreeable and more sensible tradeoff than any other that appears?

For example, one reads about, as a tradeoff, asking the Europeans to forego forever a parallel second gas pipeline.

Well, that wouldn't appeal to me as a European. That is like asking me to surrender.

Again, we hear that the whole question of strategic controls on exports has to be rationalized and coordinated. And so it does, but I have difficulty seeing achieving that as an incident of getting out of the pipeline sanction swamp that we are in.

Would you agree that if you were looking for a formula that might possibly get us out of this trouble, that doing something about subsidized interest rates is an area that should be looked at very carefully? Do you like that any better?

Mr. DE MONTBRIAL. I think it should be possible rather easily to reach an agreement more generally on the necessity not to subsidize the Soviet Union. I think the real difficulty is not on the principle; it is rather on how to achieve concretely this goal, to reach this goal, because there are many practical difficulties. But I think that on the principle it should be easy. And after all, it seems to me that this has already been agreed, and that some measures have already been taken.

Representative REUSS. At the summit at Versailles?

Mr. DE MONTBRIAL. At the summit at Versailles, but a number of practical decisions have already been made on interest rates, the so-called consensus on interest rates, the group of developed countries, and so forth.

But as for the future, I want to repeat a point I made before, because I think it is absolutely crucial. I think that it is very difficult to find a satisfactory solution to any of the problems we are talking about within the current framework, with free market forces. You cannot have any significant control of East-West trade when, on the one hand, in our countries, in Western industrialized countries, there are individual firms who negotiate with the Soviets, and on the other hand you have government agencies which work in a very coordinated

and centralized way, which means that if ever we reach some day an agreement on a strategy vis-a-vis the Soviets as far as trade is concerned, we might have to go as far as channeling all our trade through some kind of government agency ourselves.

I think that any specific arrangement on a specific point, things being what they are, can easily be circumvented because there are too many loopholes. And I think we should very carefully think of that.

Representative REUSS. You are surely right that this so-called interest rate question is so tied up with time of delivery, what you paid for the equipment, the price of the gas when you ultimately receive it, that it is about as unrealistic as is the case of someone in the city of Washington who wants to sell his home—transactions are made everyday nowadays by someone who says, "Well, I'll sell you my home for $150,000 and I'll give you a mortgage for 16 percent, or if you want I'll sell it to you for $200,000 and give you a mortgage for 12 percent." So the computer business is very good at trying to figure out who wins on these various transactions.

But my question is really in the field of psychiatry. Here you have these sanctions, and it would be too bad if the Atlantic world had waited for the long-term solutions that you so well described, a new Bretton Woods, new development agencies, state trading agency possibly on the part of the West—all these long-term things.

Can we wait and stagger along with these unfriendly sanctions in place? Aren't they a daily irritant which requires the most adept psychiatric thinking in order to try to remove?

Mr. DE MONTBRIAL. Well, Mr. Chairman, ideally I think we could perhaps proceed in three steps. One, again, would be just to lift the sanctions, because I can expect no good from these sanctions anyway. They will exacerbate tensions; they will justify any kind of unilateral actions on the part of the Europeans and others. And they certainly will not create a climate in which we can make progress.

Second, we should try to avoid in the near future the repetition of cases that would create further problems.

Third, we should start discussions among us in order to have at least some elements of a strategy for East-West trade in particular, and East-West relations in general, in the next few years. And this, I agree with you, we could and should do before having this kind of grandiose conference that would reshape the world over. I totally agree we cannot afford to solve all the problems before we solve this particular one.

But if we want to, there are a number of things we can do. But again it is my conviction that we have to find a way to get out of these sanctions as soon as possible because I just cannot see how we could cooperate in a constructive way with this umbrella of sanctions above us.

Representative REUSS. Mr. Knight, do you want to address yourself to the proposition just advanced, that maybe the way out is for the United States to rescind the sanctions or indicate that it will rescind them if certain things are done?

The United States has laid on the table a Middle East policy which went into considerable detail. And I share your view that this is a formulation that can find a lot of agreement on both sides of the Atlantic. Why not use the same technique for this nagging little problem of sanctions?

Mr. KNIGHT. Mr. Chairman, I'm afraid to say I categorically disagree with that idea. I think we Europeans will get away with anything we can. We take your troops, we take your money, we take your grain, and we will compete in an unfair way if we possibly can.

And I think that where there is very much consensus among your witnesses today, and I think with yourself and with Senator Jepsen, is that we have worked toward the idea this morning that there should be some form of global agreement between the allies, and that the allies are in very much better shape if they could actually try to resolve the underlying disagreement which has led to the pipeline affair, the underlying disagreement about strategy in terms of trade credits and so on.

My own feeling is that we are just like anybody else in Europe—and I'm sure it's the same thing in the United States—in that we don't make a deal until we have to. Goodwill is all very well, but I think if the sanctions were suspended first, as my very good friend Thierry de Montbrial says, and then a discussion takes place, I would suggest that the discussion would still be taking place on September 22, 1992, 10 years from today. If you wish to get it done in 10 months, I think the sanctions will have to remain on board a little longer.

Representative REUSS. So you think, then, that keeping the sanctions in place will bring pressure on the Europeans to address themselves to the longer-term East-West solutions which so far, admittedly, have consumed endless conferences and taken endless years but haven't gotten very far.

Mr. KNIGHT. Yes. My feeling, Mr. Chairman, is that every so often the United States has to do something quite brutal. It did it in 1971 in another field. And it leads to the most awful despair and disruption between the allies. The basic interests of the allies are so indissoluble, both economically and militarily, that the alliance will not break over that. But in order to provoke the sort of discussion that is necessary and to get both sides not to indulge in the escapisms which they are very prone to indulge in, occasionally there has to be a shock. The rights and wrongs of the shock are often fairly evident. I would say in this case the wrongs can very clearly be laid to the United States door. There was no notice given, or very little notice given, to the action that should have been taken earlier.

There are all these inconsistencies, but the fact remains in my view that you only actually get a deal when people on both sides of the dispute actually feel the time has come to strike the deal. And my feeling is that if unilaterally, in the pickle that the United States has got itself into now, it were unilaterally to get out of that pickle by lifting the sanctions, it's not going to get a deal.

Representative REUSS. You made an interesting historical analogy in your prepared statement, Mr. Knight, when you recalled that in August 1971 Richard Nixon and his Treasury Secretary, John Connally, shattered the Bretton Woods system—I'm quoting from the prepared statement—"Connally was far more vilified then in Europe than Reagan is today. Then, as today, a certain George Shultz was brought in to sweep up."

Well, in fact wasn't Europe much more upset about the 10-percent very autarchic import tax surcharge than they were about closing the gold window which had been de facto closed anyway? And you are

certainly right that Mr. Connally didn't have the faintest idea what he was doing and was not appreciated in Europe. And you are also right that Shultz fixed things up a bit. But, as I recall, he fixed things up by doing away with that stupid 10-percent surcharge.

You can see the thing I'm telegraphing. Mr. Shultz is on record in the last several years as being against sanctions as an effort to get a unified strategic trade policy vis-a-vis the Soviet Union.

Well, if Shultz was right in the early 1970's, why shouldn't he be equally right in the early 1980's and find some nice face-saving formula which would, like it or not, involve us, in effect, in giving up our sanctions. And if all that led to would be an agreement to sit down and talk about the larger questions, at least it would be in a better atmosphere, and the Europeans would not feel that they had capitulated.

In other words, can't one play the Shultz game or scenario in several ways?

Mr. KNIGHT. Mr. Chairman, I think the moment will come to play the Shultz game, and you are quite right in your recollection and I remember many of the things you said at the time.

As I remember it, the tax question, as you rightly say, was one of those very great irritants that took place. It was part of the package, but the center of the package was something else.

As I also remember it—but I haven't studied the history of the event as closely as I might have done—the whole question was broached first of all bilaterally between President Pompidou and President Nixon in the Azores long before that particular irritant was lifted, indeed at a time when John Connally was still Secretary of Treasury.

I think that, in any deal, there comes the moment for the graceful gesture. I am not saying that those sanctions in the pipeline matter can be held for ransom until the bitter end, and that one side then has to capitulate. I think that that is not the basis of state relations between adversaries, never mind between allies. So we are not talking about capitulation. And I as a European, extremely irritated by what President Reagan has done, would be the last person to advocate that.

I just think in the nature of bargaining between allies, and given particularly the preoccupations with the Middle East which are beneficial in terms of the alliance—and we wait hopefully for outcomes elsewhere as well—that the moment for graceful gestures has not yet arrived, and I think at the very least one has to get to the table before sanctions can be suspended.

And to call for, as Mr. de Montbrial does, a suspension of sanctions would equally be a capitulation by Mr. Reagan. Just as it would be a capitulation by us the other way around, I don't think we should expect a capitulation by Mr. Reagan on something he rightly or wrongly feels very strongly about, and a number of people around also feel strongly about.

I think it's just a question of letting the apple mature a little more, and using the good will generated between France, Italy, and the United States, recently, that is, and the latent good will that exists in both Germany and the United Kingdom, to start the sort of quiet discussion which Thierry de Montbrial absolutely rightly suggests. I am against the idea of solving everything by summit. The summit is really just to put the stamp of approval on an agreement at the end. And those steps, cautious and prudent, possibly using a cautious and pru-

dent Secretary of State, need to be undertaken. If he were to undertake that job, having cast away the only weapon in his hand before he undertakes the journey, then I think he won't get very far.

Representative REUSS. The Congress is most grateful to you gentlemen for being with us today in a somewhat unprecedented hearing. You have surely acquitted yourself well for your countries, and we are most grateful. We didn't expect to have a unified European point of view, and of course we didn't get one. But there is a consensus that this irritating sanctions issue ought to be disposed of, ought not to be around forever to poison relations, and that a solution of it depends upon both the Reagan administration and our European friends being willing to settle for something less than total, unconditional victory.

So that gives plenty of room to work in, and we thank you, Mr. Knight and Mr. de Montbrial. We are most grateful.

And we now stand adjourned.

[Whereupon, at 12:12 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record by Representative Reuss:]

CHADBOURNE, PARKE, WHITESIDE & WOLF,
Washington, D.C., September 28, 1982.

Representative HENRY S. REUSS,
Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR HENRY: I write to thank you, belatedly, for the invitation to testify before the Joint Economic Committee concerning the pipeline sanctions.

My schedule, since August, has been a rather busy one, with some travel and speaking engagements. At this late date, I hope you will accept from me a speech on the pipeline sanctions that I delivered in Hawaii earlier this month. It addresses several of the questions that your August 16 letter posed.

Yours sincerely,

EDMUND S. MUSKIE.

Enclosure.

"THE CURRENT WORLD SCENE"

Remarks by

Former Secretary of State
EDMUND S. MUSKIE

to the

CHIVAS REGAL
EXECUTIVE SEMINAR II

at

MAUNA KEA BEACH HOTEL
HAWAII

September 13, 1982

The Reagan Administration came to power with an ideology of foreign affairs. One lesson we can derive from the first 20 months of the Reagan foreign policy is simple: an ideology is not a strategy, a bunch of biases is not a policy.

If consistency of views was the only condition necessary to produce an impressive foreign policy, the new Reagan "orthodoxy" would deserve high marks. But the ideology has proven to be more appropriate for a political platform than as a compass in the jungles of the real world.

I propose to examine -- analytically -- one major area of foreign policy which relates to several others; to raise some questions to which we must find answers; and to provide you along the way with some personal convictions and opinions about the dilemmas in the Nation's diplomacy.

II

The sanction decisions related to the Soviet gas pipeline to Western Europe offer a clear case in which the Administration has acted on its ideological convictions.

The policymakers in the White House have convinced themselves that the Soviet economy is vulnerable to economic pressures exerted through East-West economic relations, and that Soviet leaders will respond to those pressures in a predictable way which will serve U.S. policy interests. But

our close allies, who also share a revulsion for events in Afghanistan and Poland, profoundly disagree over what to do. They are unwilling to join in embargoing equipment for the pipeline because they fear that the very substantial costs incurred now (lost exports of at least $5 billion, lost gas imports later) will not result in such obvious benefits as changing the trend of events in Poland.

On a different plane, the Reagan Administration seems to believe that it is a good idea to exert economic pressure on the Soviets in order to force them to choose between increases in defense expenditures and improvements in living standards -- the supposition being that they must bow to increasingly insistent consumer demands and thereby reduce the growth of Soviet military power. This gets at the very nature of the Soviet threat and the best way to deal with it within NATO. The Administration is isolated, yet adamant, in its views. So how valid are the fundamental tenets of the policy?*

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* This is the question posed by Ed Hewett of the Brookings Institution in his statement submitted to the SFRC for its hearing on Soviet vulnerability to economic sanctions, August 12-13, 1982.

III

There are two prevailing views of the present state of NATO. Some maintain that the Alliance is currently afflicted with the same problems that have characterized its history since 1949. According to this view, the U.S. can simply proceed as before -- alternatively strong-arming and wooing our West European partners, leading the pack because only Washington can lead.

Others believe, however, that developments during the 1970's -- the advent of strategic parity, the growth of Western Europe's economic strength, detente, and the ratification of the military settlement of World War II --may have begun a period of irreversible decay within NATO. According to this view, with Western Europe growing stronger and with fundamental policy differences emerging between West Europeans and Americans, NATO may no longer make sense.

Surely, the truth lies roughly halfway between these two extremes. Changes in the structure of world power during the 70's <u>have</u> affected West European perceptions of the U.S. and America's ability to influence those views. The realistic response to these changes would seem to be the acceptance of more pluralism within NATO and a full partnership with the West Europeans on major policy decisions. We

are not carbon copies of each other. If we ask too much of the allies, we risk uniting them in opposition to our policies. But the Reagan Administration so far seems to operate only on the assumption of unilateral American dominance.

IV

Seeking to use East-West economic ties to influence Soviet foreign policy, the Reagan policymakers assume that they can compel Western countries to act in unison in an attempt to impose significant costs on the Soviet economy.

But our policies have the direct effect of sowing disunity among our allies. In fact, the U.S. and Europe are so deeply divided over sanctions against the Soviets that the only practical question is whether the U.S. alone can impose long-term costs on the Soviet economy through embargoes which Europe and Japan ignore, costs which are not outweighed by costs to our own economy in the free world.

-- Consider: The statements we make about French companies operating under French law suggest a dangerous "hubris" that makes the other country sound like a colony. Our government has been carrying extraterritorial claims to an extreme, asserting the primacy of U.S. law in Europe and

in Japan -- even when companies in those countries may be far removed from the original party that contracted for the technology.

-- Consider: The simultaneous impact of both our steel and gas pipeline policies in Europe when they are suffering high unemployment. We are cutting off their American market with protectionist policies on steel at the same time we are cutting off their Soviet market on pipeline technology.

-- Consider: Europe will be dependent upon some foreign country (or countries) for their energy needs. Which is preferable? Total dependence upon the Middle East, or diversified dependence? They have to make the judgment about which other geographical and political directions to go. Can we guarantee other sources?

-- Consider: Are we not aiding and abetting the raising of more protectionist walls against the U.S.? We can ill-afford this when the fastest growing part of our economy is in high-technology exports. A situation which suggests we are unreliable suppliers can only worsen the international atmosphere and cause protectionist walls to go up against us. French, German and Japanese protectionists have a political excuse to move against us. (If America cannot stand against protectionism, nobody can!) We may

succeed in helping to break down our remaining monopolistic position in some areas.

In short, our choice of an economic weapon against the Soviets robs us of the necessary unity that brings results while weakening our economy in the process. Economic warfare is a different matter than economic levers. Yet we seem to say: trade or no trade.

V

What costs will the Soviets pay?

There are even more questionable assumptions behind the Administration's pipeline policy. There is the suggestion that we can squeeze our allies and make Moscow say "ouch" -- or squeeze our allies who will in turn squeeze Moscow who will in turn make General Jaruzelski loosen up in Poland.

I am putting the assumptions in crude terms. A more spohisticated stating of them was recently done by Ed Hewett of the Brookings Institution*: Soviet leaders will be forced to respond to the costs imposed by U.S. economic

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* Ibid. Also, see Hewett's earlier testimony before the Subcommittee on International Economic Policy of the SFRC, July 30, 1982.

sanctions by shifting resources from the military to the civilian sector, all other options being closed by political or technical restraints. Further, Soviet leaders will become more wary of foreign adventures, much less capable of interfering with the regimes of Eastern Europe, and therefore, Soviet foreign policy will change in directions favored by the West.

Just what are the Soviet options should we succeed in imposing significant "costs" on their economics system? And, as they choose among the options, is it likely that they will feel compelled to change Soviet foreign policy -- either in order to avoid further costs, or because military capabilities are not sufficient to support their foreign policy goals?

It is necessary to recognize that Western policies regarding commerce with the USSR are a relatively unimportant determinant of the level and growth rate of Soviet GNP. The Soviet economy is huge and complex, with a 1980 GNP of $1.4 trillion (about 1/2 U.S. GNP for that year). The system is well-endowed with natural and human resources, and it is organized by a centralized political system -- which despite its inflexibility -- has succeeded in making the Soviet Union one of the two major military powers of the world.

The level of economic activity in this system is primarily determined by internal factors. In the last three

years, for example, the major shock to the Soviet economy has not been the last two Administrations' severe restrictions on East-West trade, but rather the very poor weather which has affected agricultural output.

The Soviets have been experiencing a steady decline in growth reflecting unfavorable trends in the basic factors determining Soviet economic performance: low growth rates in the labor force; a fall in overall productivity; growing economic difficulties in Eastern Europe, Cuba, and Vietnam -- all of whom depend in varying degrees on Soviet largesse for maintaining living standards; increasing costs of extracting and transporting raw materials and energy; an aging leadership with only a loose grip on a rigid bureaucracy.*

While some of these factors are out of the control of Soviet leaders, others could be reversed over time. For example, the next group of leaders could introduce economic reforms. Nonetheless, the Soviet economy is in for a grim time in the next decade -- no matter what policies Western governments pursue regarding East-West economic relations. They have to make some very unpleasant choices among competing claims from consumers, investors, the military-industrial complex, and client states. One group or another will have to accept sacrifice.

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* Hewett, August paper.

The Reagan Administration is convinced of the dismal economic prospects facing the Soviet economy. But this is not enough. They want to add to Soviet economic problems an unfavorable climate in East-West trade and finance, in order to hasten the decline of Soviet economic performance. (Wheat, of course, is seen as a unique exception -- even though the Soviets would not buy from us unless they were getting a better deal than they could get from other countries.)

The implicit theory is that the Soviets will have to adjust to a deteriorating economy by reducing the growth rate of military expenditures and support for its allies abroad. But the net impact on the Soviet economy from the pipeline sanctions and others will likely be minor in comparison to other negative trends. And, even if U.S. policies succeed in contributing to Soviet economic difficulties, can our government be sure that Soviet decisionmakers will choose the same types of new policies (or make the same adjustments) they would choose if their problems had primarily internal causes?

VI

If some form of detente were in place, instead of a new "cold war," Soviet leaders might be inclined to pursue the option of cutting the marked growth of military spending -- simply because cutting consumption (consumer spending) or introducing serious economic reforms hold so many political uncertainties. (This very issue was considered by my Senate subcommittee when working on the Export Administration Act in the late 1960's.) But as long as we persist in the current policy of hostile relations with the Soviet Union, combined with major increases in our own defense spending, the first alternative is out of the question for any Soviet leadership which wishes to stay in power. I am trying to be realistic. For Soviet leaders to choose such a path would be obvious capitulation in the face of an American administration that talks about "prevailing with pride" in an all-out test of will and power with the Soviet Union. I do not believe the Soviet economic situation is nearly so desperate as to force them to make that kind of cave-in choice.

The current international climate probably increases their latitude to impose austerity. There is plenty of ammunition with which to sell the Soviet population on an economic policy which pursues high growth rates for the military and

low consumption rates as a patriotic response to an external threat. In fact, the posture and policies of the Reagan Administration may well serve as a convenient scapegoat for a poor Soviet economic showing -- which in reality reflects the definite weaknesses in the Soviet system.

VII

To what foreign policy ends are we imposing sanctions, especially in regard to pipeline technology?

There is little prospect that the current policies will force the Soviet leaders to change any important aspects of their foreign policies in areas of fundamental importance to them, such as Afghanistan or Poland. It is even less likely that the Soviets will change their foreign policy in response to the threat of U.S. embargoes.

The Reagan Administration is dangerously schizophrenic about the Soviet Union. On the one hand, they argue that the USSR is superior to us as a military power. On the other hand, simultaneously, they contend that the Soviet economy is so fragile that the military power is irrelevant and that the threat of U.S. economic sanctions will frighten the Soviets to the point of causing them to change their foreign policy.

When the White House is pushing large defense spending, it seems to fully -- if not overly -- appreciate Soviet military capabilities. Indeed, we may be driven to distort our own economy to match the bloated threat.

(I am reminded of a recent cartoon that depicts the American ship of state grounded on the rock of excessive defense spending. The banner across the top is a quotation from President Reagan: "We are within sight of the safe port of economic recovery. Do we make port or go aground on the shoals of selfishness, partisanship and just plain bull-headedness?")

And yet, when the same crowd argues for economic warfare, it persists in underestimating the main adversary. The Soviet system is incredibly caricatured, and its leaders are said to have few, if any, choices: for example, change the nature of their system or go to war. It is such distortion which allows those in office to delude themselves that policies costly to the Atlantic Alliance also carry potentially high benefits.

VIII

The governing ideology on foreign affairs in the White House has turned out to be utterly deficient as a

strategy because it fails to address many real problems associated with influencing Soviet behavior. It aggravates other problems with the Alliance.

Even the theme of restoring American strength proves to be an inadequate guide to action. There is the problem of compatibility -- or rather the incompatibility of the armament effort with Reagan's domestic priority -- economic recovery. Is there anyone left, other than a few "supply-siders," who believes there is no conflict here, that it is possible all at once to spend much more for defense, to reduce taxes considerably, to tolerate a vast budget deficit, and to expect both a drop in the rate of inflation and a new wave of investments?

No article of the faith has proven to be more defective than the search for a global anti-Soviet strategic consensus. In the Middle East, to take the most acute example, the new Reagan team has had to rediscover the hard way that Israel deems its enemies more dangerous than the Soviet Union; that Saudi Arabia fears too close an American embrace, and deems the disruptive effects of the Palestinian issue more threatening than Soviet designs; and that even Egypt will not provide permanent bases for the Rapid Deployment Force as long as the Palestinian issue remains unsettled.

The mere invoking of ideological convictions has served to alarm and antagonize. This is especially true in NATO. The shrill anti-Soviet statements made from the beginning of the Reagan Administration by the President and other principals, combined with all the talk about restoring a military "margin of safety" and about the need for a nuclear "war fighting" strategy, were largely responsible for the growth of the anti-nuclear movement in Western Europe. The response was a successful propaganda -- not policy --effort by the White House to picture the President as interested in peace and a negotiated solution to the arms race. Before TNF and START negotiations, the Reagan group seemed to posit arms control as opposed to no arms control.

At this point in the Administration, it is still not clear that they know why they are pursuing arms control. What is the objective? What is the alternative? An arms race which, at some point, becomes irreversible.

In this same area, it is of some interest that Secretary Weinberger -- while not changing the size of the defense budget or war preparation guidance to the services -- is constantly complaining about the questions and criticism he receives regarding his strategy for protracted nuclear war. He wails: "You show me a Secretary of Defense who is planning not to prevail [in a nuclear war] and I'll show you a Secretary of Defense who ought to be impeached."

IX

The most disturbing conclusion about foreign policy under the new crowd is the absence of policies in major areas. Until President Reagan's speech of September 1, there was a complete policy vacuum in the Arab-Israeli conflict. But now, after the tragic invasion of Lebanon, we see a policy of adaptation to the realities of the area. The future of the Palestinians, as recognized by the President's speech, is seen as integral to any future Arab-Israeli settlement.

The biggest void remains -- what Stanley Hoffman terms "the hole in the middle of the doughnut" -- the lack of a long-range policy toward the Soviet Union. The President, in the beginning, seemed to offer only two prospects -- confrontations in the near future (because of Soviet expansionism) and, in the long term, a Soviet acceptance of American terms caused by successful containment and the costs of the arms race to Moscow. This was the vision of John Foster Dulles. But it was utopia, not policy.

A vista of recurring confrontations provides no inspiration for American allies -- eager as they are to preserve a mixed relationship, not a purely adversary one, with the USSR -- not to mention the American people. West German resistance to a policy of pure confrontation, Japanese

resistance to American pressure for a greater defense effort, and the American public's own continuing support for arms control show this very clearly.

Moreover, the evolution of nuclear armaments is extremely disturbing. The distinction that made arms control agreements possible and reliable -- between strategic and tactical, conventional and nuclear, weapons --are getting blurred. The imminent vulnerability of land-based missiles on both sides will force the U.S. and the USSR to choose (in the absence of arms control) between costly, internally disruptive, and fanciful attempts at mobility and the kind of jitters that lead to thoughts of preemptive attacks. The coming proliferation of cruise missiles will open a "window of verifiability" (which we will bear responsibility for) and add to insecurity all around. The accumulation of nuclear arms is both a huge waste and a potential calamity.

A future filled with confrontations could mean a choice between a not-very-plausible game of chicken -- preventing Soviet advances and conventional force superiority by threats of nuclear war -- or the grim prospect of conventional wars all over.

Never has the need for a coordinated, long-range economic policy of the Western alliance toward the Soviet Union and Eastern Europe been greater. It cannot be

adequately defined in emergencies or case by case, for each case will then bring forth the reluctance of the Western Europeans to end the benefits they derive from their considerable trade with Eastern Europe and the Soviet Union. And their willingness to arrive at a common policy -- that would provide the Soviets both with incentives for political restraint and with the certainty that intolerable acts will incur sanctions -- cannot be separated from a long-range political and arms control strategy acceptable to the allies.

While we are committed in the START talks (which began on June 29) to resuming a dialogue on strategic weapons, many figures in the government have an enthusiasm for "deep cuts" that will be either immensely hard to negotiate or not to our advantage. Is the Administration trying to define a policy, or to prove its ideological points? This remains a fair question, which I raised in May after the President's Eureka speech.

X

For President Reagan to succeed, he has to abandon some cherished assumptions that were useful on the road to power, and then replace a simplistic view of the world with

a more sophisticated one. He is making progress, and Secretary Shultz is helping him.

Mr. Shultz is among those who believe that the fundamental task of U.S. statecraft is to limit Soviet options, not change the Soviet system. And I am encouraged by his early attempt to meet with experts from both parties to discuss long-range U.S. policy toward the Soviet Union.

But the White House still must curb the urge, so strong, so American, toward grand unilateral action, which makes them take bold initiatives that offend or dismay the very friends and allies without whom, in the world of the 1980's, no American policy has any chance of succeeding. This is a doubly dangerous urge, since the reluctance or annoyance of our friends then gets interpreted as evidence of cowardice or ignorance or cynicism on their part -- and feeds a rather ugly belief that we could somehow punish them by leaving them to their own resources and by taking care of our interests all by ourselves.

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